



REPUBLIC OF KENYA

WOOD AND WOOD PRODUCTS AND PULP AND PAPER PRODUCTS INDUSTRIES

**SECTOR PROFILE AND OPPORTUNITIES FOR PRIVATE
INVESTMENT**

MINISTRY OF TOURISM, TRADE AND INDUSTRY

OCTOBER 1999

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MESSAGE FROM THE MINISTER FOR TOURISM, TRADE AND INDUSTRY

On behalf of the Government of Kenya I am pleased to present to you this profile on paper and pulp and wood industrial sector in Kenya. The sector profile has been prepared jointly by the Ministry, which is a key player in the development of industries in Kenya, in conjunction with many public and private sector institutions and companies.

We sincerely hope that the profile, although not exhaustive per se, will guide you and enable you to make some meaningful decision on how to invest in the sub-sector of your choice. In this regard an attempt has been made to provide balanced information.

In most cases the most obvious investment opportunities in the various sub-sectors have been highlighted. We invite investors to carry out investment studies to determine the viability of these opportunities. We also invite the investors to identify further opportunities more suitable to their individual needs or experience.

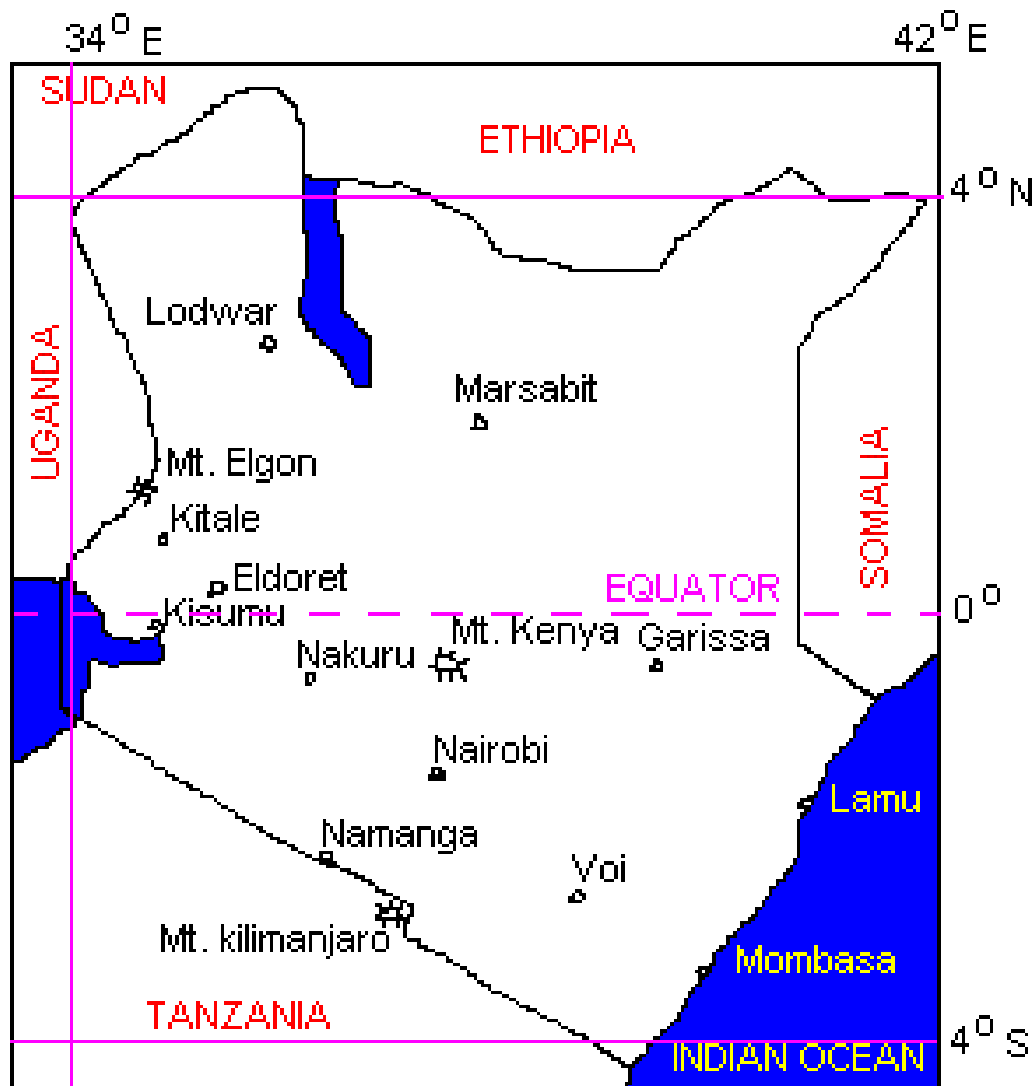
Recently the three countries of Kenya, Uganda and Tanzania revived the old East African Co-operation which aims to establish a federation in the near future to create a larger market of over 71 million people and introduce the benefits of economies of scale. We welcome foreign investors to take advantage of this larger market and invest in Kenya. In case of need please do not hesitate to contact the ministry for further assistance. Just visit our offices any time, ring or send us a fax.

Thank you for your interest in the paper, pulp and wood industrial sector in Kenya. We look forward to assisting you to implement your investment.

HON. KIPYATOR NICHOLAS K. BIWOTT, EGH, MP

MINISTER FOR TOURISM, TRADE AND INDUSTRY

MAP OF KENYA



A: WOOD AND WOOD PRODUCTS INDUSTRY

1.0 OVERVIEW

1.1 The sub-sector can broadly be divided into two sections as follows:-

(i) Primary products

- (a) Poles
- (b) Logs
- (c) Timbers

(ii) Secondary products

- (a) Furniture and fixture
- (b) Charcoal and charcoal briquettes
- (c) Others like, pencil, match boxes, rulers, domestic and toiletry wares, toys, carvings
- (d) Coke
- (e) Fuel (Fire wood)

1.2 Often some of the saw mills combine their process of timber producing and manufacture of furniture and joinery production. Likewise, smaller factories combine the manufacture of furniture and joinery products. Many of the firms belong either to small or informal sector and only very few in medium and large scale group mainly situated in urban centre all over Kenya.

1.3 Most firms are owned by individuals where some times, foreigners are included. Only firms located in prisons are Government owned.

1.4 However, it is overwhelmingly clear that secondary wood processing is not developed to the full potential for world export. Developing countries account for only 8 - 10%. Therefore there is prospect to expand and use modern technology in future for higher production capacity to increase.

2.0 CURRENT STATUS

2.1 FORESTS

2.1.1 In 1997, the total area covered by the Industrial wood was 159,800 hectares. At the end of the year 500 hectares were felled, leaving the covered area in 159,300 hectares. This produced about 90% of industrial wood, the remaining of the 10% being imported and from private farms. Forested areas are widely distributed within Central Province, Coast Province, Rift Valley and Eastern Province.

2.1.2 Forests mainly act as the source of the raw material used in wood and wood product industries all over the country.

2.1.3 Using the type of wood grown, the total covered area was occupied as below:-

FOREST PLANTATION AREA 1993 - 1997.

000 Hectares					
TYPE OF FOREST	1993	1994	1995	1996	1997*
Indigenous softwood	5.7	4.5	2.8	1.4	1.4
Indigenous hardwood	7.7	7.8	7.7	13.0	12.5
Exotic softwoods			72.9		
Cypress....	74.3	71.8	53.9	73.6	73.7
Pines.....	53.3	53.6		53.4	53.2
Exotic hardwoods			9.2		
Timber.....	6.8	6.9	13.5	6.0	6.1
Fuel.....	11.8	10.4		12.2	12.4
TOTAL AREA	159.6	155.0	160.0	159.6	159.3

* provisional

Table 1. RECORDED SALE OF FOREST PRODUCTION 1993 - 1997

Forest Production

FOREST PRODUCT	1993	1994	1995	1996	1997*
Timber-'000 true cu. Metres					
Soft wood.....	569.9	625.1	685.7	193.7	191.0
Hard wood.....	5.0	5.0	6.3	8.7	7.5
TOTAL	574.0	630.1	692.0	202.4	198.5
'000 stacked cu. Metres					
Peels/veneer logs/ plywoods.....	103.8	110.0	139.3	142.0	140.7
Pulpwood/Paper production.....	263.0	228.0	197.7	136.8	137.3
Fuelwood/Charcoal	35.0	34.3	33.6	30.0	31.8
Power & Telegraph Poles(numbers)...	35,808	36,831	37,935	14,632.8	14,263.9

* Provisional

2.2 SAW MILLS

The saw mills are widely distributed corresponding with the areas covered by the forest as follows in every District:-

Table 3. Number of saw mills by district

DISTRICT	NO. OF SAW MILLS	OPERATIONAL	NON-OPERATIONAL
Nakuru	65	65	
Laikipia	31	31	
Kericho	55	53	
Trans-Nzoia	11	11	2
Uasin Gishu	15	15	
Elgeyo Marakwet	10	10	
Narok	3	3	
Baringo	29	29	
Samburu	2	2	
Muranga	28	28	
Kirinyaga	15	15	
Nyandarua	48	43	5
Nyeri	72	51	21
Kiambu	41	36	15
Bungoma	28	28	
Kakamega	6	5	1
Meru	31	31	
Embu	10	10	
Machakos	1	1	
Kitui	1	1	
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TOTAL	488	444	44
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Province % of the total forested area in Kenya

Central	11.50
Coast	22.00
Eastern	13.00
Nairobi	0.11
Nyanza	0.98
N. Eastern	0.00
Rift Valley	47.00
Western	3.80

The smallest saw mill handles a capacity of slightly less than 500 cubic metres of wood per annum, producing 200 cubic metres of timber.

The largest saw mill handles slightly greater than 20,000 cubic metres of wood producing 8000 metres per annum.

Recovery being from 30 - 40% depending on the equipment used. 60 - 70% is composed of bark, off cuts and saw dust. All the saw mills handle a total of 1,749,636 cubic metres of logs per annum. 1,663,636 cubic metres is used to produce peels and veneers.

2.2.1 IMPORTATION OF SAW LOGS

Non-coniferous wood is imported from U.K. Uganda, Tanzania and Zaire,

Coniferous wood is imported from Tanzania, Uganda and Zaire

2.3 FUEL WOOD

This includes both wood used for production of charcoal and firewood. 37,000 cubic metres of wood were used in fuel producing industry.

2.4 CHARCOAL BRIQUETTES

At present, only one firm, is producing charcoal briquettes, using coffee husk as the raw material. It produces 6.75 tonnes/day. The charcoal briquettes are mainly for local use and export. Some exports have been made to England and Israel.

2.5 POLES

These are mainly used in fencing, as frames in construction, power and telegraph poles. There are 39 firms registered mainly dealing with the production of poles.

2.6 WOOD CARVING

It is estimated that all firms in this sector require 600 tonnes of wood/year, which is mainly from indigenous trees like Ebony, Rose and Muhuku.

All the firms sell their products to various curio shops or directly to tourists. Some of the products are exported abroad.

2.7 FURNITURE AND FIXTURES

These are the secondary wood processing industries which cover the transformation of sawn wood into timber, panel or finished products. Main users of secondary wood processing production are:-

2.7.1 Structural support

- (a) temporary works
- (b) frame and trusses
- (c) pre-fabricated houses

2.7.2 Non-Structural use

- (a) furniture
- (b) joinery

2.7.3 Others

- (a) packaging
- (b) pallet
- (c) miscellaneous wooden articles

2.8 FURNITURE AND FIXTURES MANUFACTURING FIRMS

There are 1,232 firms dealing in furniture and joinery, which excludes those dealing in miscellaneous wooden articles. Some of the packaging done in the factories using wood like in tea leaves factories and ware houses are also not included.

The capacity of every firm depends on the availability of customers and it keeps fluctuating slightly every year.

However, about 80 percent of the produced timber is used in temporary works, packaging, pallets and in miscellaneous wooden articles like wooden rulers, pen holders, key holders wooden toys, domestic articles, wooden pencils, etc.

Products from hard wood like Camphor, Meru oak etc. are more costly to buy than those produced from soft wood like cypress, pine and cedar. The exported articles include wooden toys, wood carvings, pre-fabricated houses, knockdown furniture etc. comprising only 10 percent of the total goods produced.

90 percent of the raw materials is supplied locally while only 10 percent is imported from Uganda, Tanzania and United Kingdom.

The smallest firm employs 2 persons and the largest employs 500 persons. Medium ones employ about 50 persons each. The whole industry employs about 65,000 people directly.

3.0 POLICY ISSUES

The Government will encourage appropriate technologies which can cut down on wastage e.g. making furniture which can be easily exported. The use of branches cut from logs will be encouraged to minimise wastage.

4.0 INVESTMENT OPPORTUNITIES

Some of the potential projects identified include:

- Manufacture of furniture of various designs from branches which are cut from the logs.
- Design and production of knock down school desks, office desks and chairs.
- Research into economic utilization of such waste as sawdust, wood shaves, small pieces of timber.
- To increase designs so as to be able to export to other African countries and overseas.

B: PULP AND PAPER INDUSTRY

1.0 OVERVIEW

The paper industry plays a major role in national development and contributes 2% towards the GDP. It also creates a backward and forward linkages among the other sectors in the economy whether in manufacturing printing, packaging etc. The entire industry employs 2,799 people.

There are six firms in the paper industry with a total production capacity of 125900 M/T of paper per year. This is against the country total demand of 220,000 M/T a year.

The first paper production in the country started in 1957 by Kenya Paper Mills at Thika. Thereafter other 5 firms have been established to meet the ever growing demand for pulp and paper viz:

- ◆ Pan African Paper Mills
- ◆ Madhupaper (K) Ltd
- ◆ Highlands Paper Mills
- ◆ Kisumu Paper Mills
- ◆ Chandaria Industries Ltd

2.0 PRESENT STATUS OF THE PAPER INDUSTRY

There are six firms in the paper industry with a total production capacity of 125900 M/T of paper per year. This is against the country total demand of 220,000 M/T a year.

These firms are:

- (i) Kenya Paper Mills at Thika which produces:

- Test liners
- Fluting medium
- M. G. libbed manilla paper
- Cover pressings

(ii) Pan African Paper Mills Ltd (PPM) which is a joint Venture project between the Kenya Government, I.F.C. and Birla Group of India.

PPM produces the following grades of paper.

- Packaging materials
- writing paper
- printing and newsprint

(iii) Madhupaper (K) Ltd which produces:

- Facial tissues
- Napkin tissues
- Bread wrap
- Kraft liner

(iv) Highlands Paper Mills which produces:

- Straw boards
- paper boards

(v) Kisumu Paper Mills Ltd produces:

- Kraft liner
- Flute medium
- Core paper
- Wrapping paper
- envelope paper
- Paper boards

(vi) Chandaria Industries Ltd produces:

- Packaging and facial and napkin tissues.

Total production of pulp and paper of 125900 M/T is inadequate to meet the country's demand of 220,000 M/T a year. The difference is met by importation. Below are the latest import statistics in K£ - value.

Paper and Paper Product

1990 – K£40.95M

1991 – K£46.38M

1993 – K£48.03M

1994 – K£80.27M (Currency conversion: 1US\$=K£2.9)

2.1 RESOURCE BASE

Currently, only Pan Paper Mills is allowed to fell trees to produce virgin pulp for paper. The rest of paper manufacturers use waste paper as their raw material.

For sustainable paper production, sound afforestation measures are required. At present, the country has 155,000 hectares of land under forests. Though this might look bright for the paper industry, it should be noted that forests have continued to dwindle due to pressure on them for settlement and farming. However, the Government has put in place all the necessary measures to increase acreage under forests by planting more trees itself and also by sensitising the local communities on afforestation programmes.

3.0 OPPORTUNITIES FOR INVESTMENT

Considering the large amount of money the country uses to import pulp and paper, investment opportunities exist for more paper mills to close the local demand gap and also for export. With the liberalisation of the economy, production units can be set up using imported pulp and waste paper and later integrating backwards by planting own trees.

Opportunities also exist for exploiting alternative sources of raw materials such as sisal waste, bamboo, rice straw, maize straw, wheat straw and spline liner bagasse. However, thorough research is needed in order to exploit the opportunities in these areas.

Potential projects that can be identified under this sector include the manufacture of :-

- ◆ self-adhesive paper
- ◆ coated paper.

C: AGRIBUSINESS SECTOR

Some of the incentives that investors in this sector will be entitled to include:

- ◆ Investment protection
- ◆ Investment allowances on buildings and machinery for manufacturing or processing
- ◆ Low duty rates for importation of inputs
- ◆ Low import duty on inputs or other raw materials etc
- ◆ Free repatriation of capital and profits
- ◆ Local capital borrowing opportunities etc
- ◆ Indefinite loss carried forward

USEFUL CONTACTS

1. THE PERMANENT SECRETARY
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